

Message Text

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TAGS/ USIRJC, BENC, ECRE, EFIN, IR

SUBJ: PERFORMANCE BONDS: USE OF SURETY BONDS RATHER

THAN BANK GUARANTEES.

1. EMBASSY HAS VERIFIED THAT TWO U.S. COMPANIES WITH RECENT
SUBSTANTIAL GOVERNMENT OF IRAN CONTRACTS HAVE MET THE
REQUISITE PERFORMANCE BOND REQUIREMENTS THROUGH THE USE OF
SURETY BONDS RATHER THAN BANK GUARANTEES BACKED UP BY STANDBY
LETTERS OF CREDIT. THE CASES, HOWEVER, ARE DIFFERENT.

2. MORRISON-KNUDSEN WHO, WITH ITS FRENCH CONSORTIUM PARTNER,
HAS THE CONTRACT FOR THE QOM - BANDAR SHAHPOUR EXPRESSWAY,
OBTAINED GOI AGREEMENT FOR A SERIES OF SIX UNCONDITIONAL
SURETY BONDS COVERING VARIOUS PHASES OF THE PROJECT
AS IT PROGRESSES. THUS, ALTHOUGH THE SO- CALLED QUOTE GUILLOTINE
CLAUSE UNQUOTE PERMITS A BOND TO BE CALLED AT ANY TIME BY
THE MINISTRY OF ROADS AND TRANSPORTATION, A PROBLEM
ON ONE PHASE (COVERED BY A SEPARATE CONTRACT) WILL NOT
RESULT IN THE BOND ON ANOTHER OR ALL BEING CALLED. THE
INSURANCE WAS ARRANGED LOCALLY THROUGH AMERICAN INSURANCE
UNDERWRITERS AFTER NEGOTIATIONS WITH THE CENTRAL BANK.

3M ON THE OTHER HAND, BROWN AND ROOT, WHICH
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HAS CONTRACTS WITH THE IMPERIAL IRANIAN NAVY (IIN) FOR
THE CONSTRUCTION OF CHAH BAHAR NAVAL BASE AND FOR EXPANSION
OF BANDAR ABBAS PORT, ARRANGED FOR A CONVENTIONAL CONDI-
TIONAL SURETY BOND FROM INSURANCE COMPANY OF NORTH AMERICA
(INA). THE BROWN AND ROOT RESIDENT MANAGER REPORTED, HOWEVER,
THAT ALTHOUGH THE BOND WAS CONDITIONAL THE COMPANY HAD BEEN
TOLD THAT IF PUSH COMES TO SHOVE INA WOULD PAY WITHOUT RE-

COURSE TO NEGOTIATIONS. HE ALSO INDICATED THAT THE SURETY BOND HAD BEEN RECOMMENDED TO THE NAVY BY ROBERT POMEROY, THE U.S. CONSULTANT TO THE IIN, PRESUMABLY BECAUSE IT WAS THE BONDING SYSTEM MOST FAMILIAR TO HIS OWN COMPANY. HE ALSO INDICATED THAT THE NAVY NOW SEEMED A LITTLE NERVOUS ABOUT ITS USE.

4. COMMENT: BOTH CASES ALTHOUGH DIFFERENT IN DETAIL, ADD TO THE BODY OF IRANIAN GOVERNMENT EXPERIENCE WITH SURETY BONDS AS OPPOSED TO BANK GUARANTEES AND SHOULD IMPROVE FUTURE PROSPECTS FOR U.S. COMPANIES NEGOTIATING LARGE CONTRACTS WITH AGENCIES OF THE IRANIAN GOVERNMENT.
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